

Directors' Report 2017-18

To the Members,

Your Board of Directors has pleasure in presenting the 80th Annual Report of your Bank, together with the audited Balance Sheet, Profit and Loss Account and the report on business and operations for the year ended 31st March, 2018.

Performance at a Glance

- The aggregate business of the bank stood at Rs.136919 Crore at the end of the financial year 2017-18.
- The total deposits of the Bank grew by Rs.7543 Crore from Rs.72463 Crore as on 31st March, 2017 to Rs.80006 Crore as on 31st March, 2018, a growth of 10.41 percent. CASA deposits of the bank at Rs.40715 Crore constituted 50.89 percent of total deposits of the bank.
- Cost of deposits for current FY stood at 5.01 percent.
- Return on Assets improved to 0.25% for the FY ended 31st March 2018 from -2.04 % for the previous financial year.
- CD Ratio improved to 71.14% as on 31st March 2018 compared to 68.75% as on 31st March 2017.
- The net advances of the Bank stood at Rs.56913 Crore as on 31st March, 2018.
- Yield on advances for the current FY stood at 8.77 percent.
- Priority sector advances (Gross) stood at Rs. 21621.43 Crore as on 31st March, 2018.
- The bank effected cumulative cash recovery, up-gradation of NPA's and technical write-off of Rs.3098.00 Crore during FY 2017-18.
- Investment portfolio of the bank stood at Rs.18880 Crore as on 31st March, 2018.

Insurance Business

The bank earned an income of Rs.31.40 Crore from the Insurance Business. The bank mobilized business of Rs.75.15 Crore and Rs.181.98 Crore during the year in life and non-life insurance segments respectively.

Income Analysis

- The Interest income of the bank stood at 6621 Crore in the year 2017-18. Interest expenses stood at 3751 Crore for FY 2017-18. The Net Interest Income stood at Rs. 2871 Crore for FY 2017-18.
- The Net Income from operations [Interest Income plus Non-interest Income] stood at Rs.7117 Crore in the financial year 2017-18.
- The Operating Expenses registered an increase of 274 Crore during the financial year 2017-18 and stood at Rs.1984 Crore as compared to Rs.1710 Crore in 2016-17.
- The Cost to Income ratio (Operating Expenses to Net Operating Income) stood at 58.95 percent in the financial year 2017-18.

Gross Profit

The Gross Profit for the financial year 2017-18 stood at Rs. 1381.87 Crore.

Provisions

The Provision for Loan Losses, Standard Assets, Taxation and others aggregated to Rs.1179 Crore in the financial year 2017-18.

Net Profit/Loss

The bank registered a Net Profit of Rs.202.72 Crore for the financial year 2017-18.

Dividend

In order to conserve/ augment capital base of the Bank, your directors do not recommend any dividends for the financial year 2017-18.

Branch/ATM Network

During the financial year 2017-18, **39** new branches were established, thereby taking the number of branches to **904** as on 31-03-2018, spread over 20 states and one union territory. The area-wise breakup of the branch network (excluding extension counters/ mobile branches and Service branches) on the basis of census 2011 as at the end of FY 2017-18 is as under:

Area	Branches
Metro	170
Urban	106
Semi-Urban	152
Rural	476
Total	904

During the financial year 2017-18, **103** ATMs were commissioned thereby taking the number of ATMs to **1199** as on 31.03.2018.

Net Worth and Capital Adequacy Ratio (CRAR)

- The Net Worth of the bank stood at Rs.6161.21 Crore on 31st March 2018.
- Capital Adequacy Ratio under Basel III stood at 11.42 percent as on March, 2018. The tier I component of CRAR is 9.24 percent as on 31st March 2018. Book Value per Share for the financial year 2017-18 stood at Rs.110.60.

Advertising & Publicity

Promoting our brand image proactively, we successfully positioned our brand image deep within the evolving public consciousness thereby enhancing our brand value during the financial year 2017-18. The bond of trust between stakeholders and the bank was further cemented through effective and needful messaging at relevant junctures throughout the financial year.

The bank's products, services and facilities were successfully advertised across the operational geographies. Besides its functioning and achievements were effectively communicated to the respective target audiences including customers, share-owners, stakeholders and general public through customized and efficiently packaged messages using relevant multi-media outlets across the country. Leveraging its presence in the social-media universe, the bank firmed up its online presence further to enhance its brand image using highly popular mediums of social connectivity platforms like Facebook and Twitter.

Capital

In order to meet the needs of its growing business, including long term capital requirements for pursuing its growth plans and to maintain its Capital Adequacy Ratio as per the regulatory guidelines/ norms laid down by the Reserve Bank of India, your Bank made Preferential Allotment of 3,55,25,321 equity shares of Re. 1/- each fully paid up for cash to the Government of Jammu and Kashmir at the issue price of Rs. 79.38 (Rupees Seventy Nine and Thirty Eight Paise only) per Equity Share (including premium of Rs. 78.38 per Equity Share) aggregating to Rs. 282 crores during the year under report. Further the Bank also raised unsecured, redeemable, subordinated, non-convertible, Basel III compliant Tier 2 bonds in the nature of debentures for inclusion in Tier 2 Capital of the Bank of face value of Rs. 10.00 lacs each at par aggregating to Rs. 500 crores.

Subsidiary Company

As on March 31, 2018, your Bank had one unlisted Subsidiary, JKB Financial Services Limited (JKBFSL). Salient features of the financial statement of JKBFSL are attached herewith as Annexure 5.

Performance & Financial Position of JKBFSL

The operating income of the Company for the year ended 31st March, 2018 stands at Rs. 5.49 Crores. Other incomes of the company stood at Rs. 49.59 lacs. The Total income of the Company for the year ended 31st March, 2018 stood at Rs. 5.98 Crores. The net loss of the company for the financial year ended 31st March, 2018 stood at Rs. 2.19 Lacs, increased its accumulated net loss to Rs. 3.63 Crores as on 31st March, 2018.

Regional Rural Bank Sponsored by J&K Bank: J&K Grameen Bank

J&K Grameen Bank (JKGB)

The J & K Grameen Bank has come into existence on 30th June 2009 with the issuance of statutory notification by Gol, MoF, Department of Financial Services under sub-section (1) of section 23 (A) of the Regional Rural Banks Act, 1976 vide F. No.

1/4/2006-RRB providing for amalgamation of Kamraz Rural Bank and Jammu Rural Bank into a single new Regional Rural Bank under the name of **J & K Grameen Bank** with its **Head Office at Jammu** and has commenced business effective from 01.07.2009.

Area of Operation:

The area of operation of the J&K Grameen Bank comprises of 13 districts of the State viz. Baramulla, Bandipora, Kupwara, Jammu, Kathua, Rajouri, Poonch, Leh, Kargil, Samba, Kishtwar, Ganderbal and Srinagar.

No. of Branches (as on 31-03-2018): 217 **No. of Employees (as on 31-03-2018):** 1021

Capital Structure:

In terms of the RRBs Act 1976, the authorized capital of Regional Rural Banks was fixed at Rs.5.00 Crore (which stands amended to Rs. Two Thousand Crore in terms of the Regional Rural Banks (Amendment) Act, 2015 notified in the Gazette of India on 12-05-2015). The issued and paid up capital of the J&K Grameen Bank is Rs.97.16 Crore fully subscribed by the Central Government, State Government and Sponsor Bank in the ratio of 50:15:35 respectively. The details are tabulated hereunder:

1.	Authorized Share Capital	Rs.2000 Crore
2.	Subscribed / Paid up Share Capital	Rs.97.16 Crore
	Central Government (50%)	Rs.48.58 Crore
	State Government (15%)	Rs.14.57 Crore
	Sponsor Bank (35%)	Rs.34.01 Crore

Tier II perpetual bonds: Out of total cost outlay of Rs. 23.34 Crores for implementation of 100% CBS by JKGB, 50% i.e., Rs. 11.67 crore has been shared by J&K Bank (Sponsor Bank).

Date of issue: 04-12-2014

Performance of the Bank as on 31.03.2018 (Audited)

Business:

The total business of the bank as on 31st March 2018 stood at Rs.4999.44 crore against Rs.4632.66 crore as on 31st March 2017, thereby showing an increase of Rs.366.78 crore registering a growth of 7.92% during the financial year 2017-18.

Deposits:

The deposits of the bank have increased from Rs.3230.43 crore to Rs.3404.63 crore during the financial year 2017-18 thereby registering a growth rate of 5.39%.

Advances:

The gross advances of the Bank as on 31st March 2018 stood at Rs.1594.81 crore as against Rs.1402.24 Crore as on the corresponding date of the previous year recording a growth of 13.73%

CD Ratio:

The C.D. Ratio of the bank has increased by 3.43% from 43.41% as on 31st March 2017 to 46.84% as on March 31, 2018.

Priority Sector Advances:

The priority sector advances outstanding as on 31st March 2018 stood at Rs.1235.21 crore against Rs.1058.86 crore outstanding as on 31st March 2017, registering a growth of 16.65% (Rs.176.35 crore) on YoY basis.

RRB specific benchmark of 75% portion of priority sector advances to total advances outstanding has been well maintained with 77% advances portfolio comprising of Priority Sector loans.

NPA Position:

The gross NPA level of the Bank as on 31.03.2018 is at Rs.175.38 crore i.e. 11.00% of the gross advances. The Net NPAs as on 31.03.2018 stood at Rs. 97.17 crore which accounts for 6.41% of net advances.

Business per Employee:

The business per employee as on 31st March 2018 stood at Rs.4.90 crore against Rs.5.01 crore as on corresponding date of the previous year.

Business per Branch:

The business per branch as on 31st March 2018 stood as Rs.23.04 crore against Rs.21.34 crore as on corresponding date of the previous year recording a growth of 7.97%.

Profitability:

Against Net Loss of Rs.13.07 crore recorded for the previous FY 2016-17, the bank has recorded Net Profit of Rs.14.10 crore for the year ended 31st March 2018.

Lead Bank Responsibility

a. Convener JKSLBC

The J&K Bank is the only Private Sector Bank in the country assigned with the responsibility of convening State Level Bankers' Committee meetings. The Bank continued to discharge its Lead Bank responsibility in 12 districts i. e Srinagar, Ganderbal, Budgam, Baramulla, Bandipora, Kupwara, Anantnag, Kulgam, Pulwama, Shopian, Poonch and Rajouri out of 22 districts of J&K State satisfactorily. The other 10 districts i. e Jammu, Samba, Kathua, Udhampur, Reasi, Doda, Ramban, Kishtwar, Leh and Kargil are managed by State Bank of India.

The State Annual Credit Plan (ACP) for the FY 2017-18 was launched in time and its implementation was monitored on quarterly intervals in State Level Bankers' Committee meetings. During the FY 2017-18 Banks have extended a total credit of Rs.23,592.91 Crore in favour of 7,33,025 beneficiaries (both under Priority as well as Non-priority Sector) against annual target of Rs.28,841.64 Crore for 9,66,047 beneficiaries under Annual Credit Plan 2017-18, thereby registering achievement of 82% in financial terms and 76% in physical terms.

This includes Priority Sector credit of Rs.12,817.84 Crore disbursed in favour of 4,62,136 beneficiaries against the annual target of Rs.19,933.02 Crore for 7,40,847 beneficiaries (constituting 64% achievement in financial terms and 62% in physical terms) and Non-Priority Sector credit of Rs.10,775.06 Crore disbursed in favour of 2,70,889 beneficiaries against annual target of Rs.8,908.62 Crore for 2,25,200 beneficiaries (constituting achievement of 121% in financial and 120% in physical terms).

Out of the total Priority Sector credit of Rs.12,817.84 Crore disbursed by all banks in the State during FY 2017-18, J&K Bank alone has disbursed Rs.8,912.08 Crore against the target of Rs.10,646.34 Crore, thereby achieving 84% of its annual ACP target which accounts for a share of 70% of the total flow of credit to priority sector by all banks together in the State during FY 2017-18.

During the FY 2017-18, following meetings were conducted:

- Four J&K State Level Bankers Committee (SLBC) meetings, viz. 104th, 105th, 106th and 107th were held on 29th June 2017, 29th August 2017, 21st December 2017 and 21st February 2018 respectively.
- Sub-Committee of Empowered committee on MSMEs held on 21st April 2017
- A special SLBC meeting on banking related security issues held on 5th May 2017.
- Sub-Committee of J&K SLBC on Export Promotion held on 25th August 2017
- A meeting of Steering Sub-Committee of J&K SLBC to monitor IT-enabled Financial Inclusion, FLCCs & Credit Plus Activities held on 11th October, 2017.
- Steering Sub-Committee of SLBC on SHGs held on 12th February 2018
- A meeting of the Sub-Committee of SLBC to approve Annual Credit Plan for FY 2018-19 held on 29th March, 2018

Implementation of Financial Inclusion Plan (FIP)

- The target for providing Information & Communication Technology (ICT)-based banking services in the 795 and 5582

identified unbanked villages (having population over 2000) in Phase-I and (villages with population below 2000) in phase II of Financial Inclusion Plan was accomplished successfully by providing coverage to all the identified villages.

- Roadmap for opening "Brick & Mortar" branches or CBS-Enabled Banking Outlets in the villages with population more than 5000 where there is no branch of any Scheduled Commercial Bank was formulated. J&K SLBC, in coordination with concerned Lead District Managers, identified 104 villages out of the total 235 villages with population of more than 5000 (as per Census 2011) in J&K, without any branch of Scheduled Commercial Bank. In terms of the directives from RBI, the identified 104 villages were allocated among the 8 major Scheduled Commercial Banks operating in J&K State (J&K Bank - 48; SBI - 15; PNB - 11; HDFC Bank - 11; ICICI Bank - 5; Canara Bank - 5; UCO Bank - 5; Central Bank of India - 4) for opening "Brick & Mortar" branches or CBS-Enabled Banking Outlets in the allocated villages. As at 31.03.2018, 15 villages have been covered for banking services with opening 6 branches and 9 CBS-Enabled Banking Outlets in the identified villages. Out of the 15 villages covered, 5 branches have been opened by J&K Bank and 1 branch and 6 CBS-Enabled Banking Outlets opened by SBI and 3 CBS-Enabled Banking Outlets opened by UCO Bank.

Responsibility of setting up of RSETIs in J&K State:

In terms of guidelines issued by Ministry of Rural Development, Government of India, setting up the Rural Self Employment Training Institutes (RSETIs) in all the districts of J&K State was assigned by Lead Bank Department /J&K SLBC to two Banks, viz. J&K Bank and SBI as per their Lead Bank responsibility. Accordingly, J&K Bank has set up 12 RSETIs in its allocated 12 lead districts of Srinagar, Ganderbal, Budgam, Baramulla, Bandipora, Kupwara, Anantnag, Kulgam, Pulwama, Shopian, Poonch and Rajouri. State Bank of India has also set up 9 RSETIs in its allocated 10 lead districts of Jammu, Samba, Kathua, Udhampur, Reasi, Doda, Ramban, Kishtwar, and Leh. RSETI at Kargil has not been operationalized by SBI as yet. The Performance of RSETIs in conducting training programmes and the number of persons benefited through credit linkage is being reviewed in quarterly SLBC meetings.

Responsibility of setting up of FLCs in J&K State:

In terms of RBI guidelines, target of setting of Financial Literacy Centres (FLCs) in all the districts of the state has been fully accomplished with J&K Bank having made 12 FLCs operational in its 12 allocated lead districts and SBI having made 10 FLCs operational in its 10 allocated lead districts. In addition, **PNB, JKGB, EDB** and **J&K State Cooperative Bank** have also established 4, 2, 2 & 1 FLCs respectively in various districts of the state which takes the total number of FLCs in J&K State to 31. The performance of FLCs in conducting the Financial Literacy Camps as per the guidelines from RBI is being reviewed at various forums including quarterly SLBC Meetings.

100% coverage of farmers under KCC Scheme

The initiative of 100% coverage of farmers under KCC Scheme with the target to cover 9.81 lakh interested farm operating families (target fixed by Agriculture Production Deptt.) which was launched in J&K State in January 2012 in terms of directives of GoI, MoF stands accomplished in the State. Banks operating in J&K State have issued a total of **10,46,548 KCCs** to the farm operating families in the state upto **March 2018** to whom a cumulative credit of **Rs.10,361.27 Crore** stands disbursed.

Board of Directors

Your Bank has thirteen (13) Directors consisting of two (2) promoter Directors including Chairman & CEO, 12 Non Executive Directors, including One RBI Nominee Director as on 31st March, 2018.

Independent and Non - Independent

Non Independent Executive Director

Mr. Parvez Ahmed, Non Independent Executive Director has been serving as the Chairman & CEO of the Bank since October 6, 2016, with the approval of Reserve Bank of India (RBI).

Non Independent Non Executive Director

Mr. Navin Kumar Choudhary, IAS, Principal Secretary to Govt. of J&K, Finance Department, Mr. Abdul Majid Mir, Mr. Azhar ul Amin, Mr. Dhaman Kumar Pandoh and Mr. Rahul Bansal are the Non Independent Non Executive Director of the Bank.

Independent Non-Executive Director

In terms of the definition of 'Independent Director' as prescribed under Regulation 16(b) of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 and Section 149(6) of the Companies act, 2013 and based on the declarations/disclosures received from the Directors, the following Non -Executive Directors are Independent Directors:-

1. Mr. Mohammad Maqbool Rather
2. Mr. Mohammad Ashraf Mir
3. Dr. Pronab Sen
4. Mrs. Vijayalakshmi R. Iyer
5. Dr. Sanjiv Agarwal
6. Mr. Sunil Chandiramani

All Independent Directors of the Bank have given their respective declarations stating that they meet the criteria of Independence as laid down under the applicable laws and in the opinion of the Board, the independent directors meet the said criteria.

Reserve Bank Nominee Director

Mr. Yogesh Kumar Dayal, General Manager, Reserve Bank of India is the Nominee Director of the Reserve Bank of India on the Board of the Bank.

Appointments/Resignations from the Board of Directors

Mr. Azhar-ul Amin, was re-appointed at the 79th Annual General Meeting of the Bank held on 17th June, 2017 as Director liable to retire by rotation. Mr. Mohammad Maqbool Rather, Mr. Mohammad Ashraf Mir, Dr. Pronab Sen, Mrs. Vijayalakshmi R. Iyer, Dr. Sanjiv Agarwal and Mr. Sunil Chandiramani, were appointed as Independent Directors for a period of two years at the same meeting.

None of the Directors has resigned during the year under review.

Appointments/Resignations of the Key Managerial Personnel

Mr. Parvez Ahmed, Chairman & CEO, Mr. Pushap Kumar Tickoo, Chief Financial Officer and Mr. Mohammad Shafi Mir, Company Secretary are the Key Managerial Personnel of the Bank. Mr. Pushap Kumar Tickoo, was appointed as Chief Financial Officer of the Bank with effect from 22-07-2017 in place of Mr. S. K. Bhat who ceased to be CFO of the Bank consequent upon attaining the age of superannuation with effect from 13.05.2017.

None of the Key Managerial Personnel has resigned during the year under review.

Number of Meetings of the Board

During the year under review, Twelve Board Meetings were held, in due compliance with statutory provisions, on the following dates:

15.04.2017, 13.05.2017, 29.05.2017, 22.07.2017, 19.08.2017, 22.09.2017, 27.10.2017, 19.12.2017, 26.12.2017, 31.01.2018, 19.02.2018, 12.03.2018

Committees of the Board

The Bank has following committees of the Board:

- Management Committee
- Audit Committee
- Monitoring of Large Value Frauds/Frauds Review/Willful Defaulters Classification Review Committee
- Stakeholders Relationship Committee
- Information Technology Strategy Committee

- Corporate Social Responsibility Committee
- Integrated Risk management Committee
- Customer Service Committee
- Nomination and Remuneration Committee
- Legal and Impaired Assets Resolution Committee
- Human Resource Development Committee

The compositions, powers, roles, terms of reference, etc. of relevant committees are given in detail in the statement on Corporate Governance annexed to this report.

Corporate Social Responsibility Policy

As a responsible institution, J&K Bank is committed to Corporate Social Responsibility (CSR). The Bank has in place Board approved policy on Corporate Social Responsibility. With an aim to instill a sense of relief and protection among the most vulnerable sections of society, the Corporate Social Responsibility (CSR) policy of the bank identifies key responsibility areas and seeks to assimilate the CSR ideals into its empowerment mission for optimizing its social performance. The CSR policy is available on the website of the Bank. (<http://www.jkbank.net>).

The Bank retained its comprehensive focus on activities for the larger community welfare through CSR initiatives concentrating on people's health, education, environment and society at large. The statutory disclosures with respect to the CSR Committee and an Annual report on CSR Activities forms part of this Report as Annexure 1.

Performance Evaluation of the Board

Board shall be assessed by Independent Directors as to whether Board of the Bank is a professional and an active Board which meets frequently during the year to chart out policies and practices, ensuring that principles of Corporate Governance, both as imbibed in law and regulations and those expected by stakeholders, are religiously and voluntarily complied with and the stakeholder's interests are kept at utmost high level.

Process of Performance Evaluation

The Companies Act, 2013 and Regulation 17(10) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 stipulates the performance evaluation of the Directors including Chairperson, Board and its Committees. Considering the said provisions, the Bank has devised the process and the criteria for the performance evaluation which has been recommended by the Nomination & Remuneration Committee and approved by the Board at their meetings held on 19th December, 2017

The process for performance evaluation is as under:

- In conformity with the statutory requirement, the performance evaluation of all the independent directors shall be done by the Board, which shall submit its report to the Chairman with necessary comments and suggestive course of action arising out of the evaluation,
- Independent Directors shall evaluate the performance of non - independent directors and Board as a whole and shall submit its report to the Board for necessary comments and suggestive course of action arising out of the evaluation.
- The performance evaluation of the Committees of the Board shall be conducted by the entire Board.
- Atleast one Meeting of the Independent Directors on the Board of the Bank shall be held every year to review the performance of non-Independent directors including the Chairman and the Board as a whole.

The criteria for performance evaluation are as under:

Performance Evaluation of Chairman & CEO

Managing Relationships, Leadership, Roles and Responsibilities and other parameters, Responsibility towards stakeholders; Contribution in Strategic Planning; Compliance and Governance; Participation and Updation of Knowledge.

Performance Evaluation of Board

Composition and Diversity; Committees of the Board; Board & Committee meetings; Cohesiveness of Board decisions; Board Procedure; Performance Culture; Discussions at Board Meetings; Understanding of the business of the Bank; Understanding

the role and effectiveness; Foresight to avoid crisis and effectiveness in crisis management; Understanding of the regulatory environment; Strategy and Growth; Risk Management and Financial Controls; Quality of Decision making and Board's Communication systems.

Performance of the Board Level Committees

Composition and Balance of skill sets; Frequency and duration; Interaction with the Board.

Corporate Governance

The Bank has established a tradition of exemplary practices in corporate governance. It encompasses not only regulatory and legal requirements, but also several voluntary practices, aimed at high level business ethics, effective supervision and enhancement of stakeholder volume. Several matters have been voluntarily included in the statement on corporate governance annexed to this report, besides certificate from the Central Statutory Auditors regarding compliance of conditions of Corporate Governance as stipulated by the SEBI (Listing Obligations & Disclosure Requirement) Regulations, 2015.

Management Discussion and Analysis

The Management Discussion and Analysis Report for the year under review are presented in a separate section forming part of this Report.

Whistle Blower policy & Vigil Mechanism

The Bank has implemented a Whistle Blower Policy pursuant to which Whistle Blowers can raise concerns relating to reportable matters (as defined in the policy) such as breach of J&K Bank Code of Conduct, fraud, bribery, corruption, employee misconduct, illegality, health & safety, environmental issues and wastage/misappropriation of banks funds/assets, etc. Further, the mechanism adopted by the Bank encourages the Whistle Blower to report genuine concerns or grievances and provides for adequate safeguards against victimization of Whistle Blower who avail of such mechanism and also provides for direct access to Chairman of the Audit Committee, in exceptional cases. The details of the Whistle Blower Policy are available on the website of the Bank (www.jkbank.net)

Risk Management

Bank has adopted a robust, comprehensive and well-defined Risk management framework. Whilst Board is responsible for framing, Implementing, monitoring and reviewing of risk management framework, Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through the sub-committees of the Board of Directors. The Board sets the overall risk appetite and philosophy for the Bank. The Board of Directors, the Integrated Risk Management Committee of the Board, which is a sub-committee of the Board, review various aspects of risk arising from the businesses of the Bank. Three Executive/ senior management committees; Credit Risk Management Committee (CRMC), Operational Risk Management Committee (ORMC) and Market Risk Management Committee (MRMC) operate within the broad risk management framework of the Bank.

The Bank has put in place policies relating to management of credit risk, market risk, operational risk, asset-liability and Pillar II risks. Risk management is administered by Executive/ senior management committees through Integrated Risk Management Department (IRMD). IRMD has three dedicated divisions for credit risk, operational risk and market risk management. Business continuity plan and Information security plan also forms part of risk management functions in the Bank. Treasury activities are separately monitored by mid office, which reports to IRMD. The Bank has formulated a comprehensive Stress Testing Policy to measure impact of adverse stress scenarios on the adequacy of capital. The stress scenarios are idiosyncratic, market wide and a combination of both.

The key components of the Bank's risk management rely on the risk governance structure, comprehensive processes and internal control mechanism based on approved policies and guidelines. The Bank's risk management framework focuses on the key areas of risk such as credit, market, operational risk and liquidity risk and quantification of these risks, wherever possible, for effective and continuous monitoring and control.

Business Responsibility Report

In terms of Regulation 34(2)(f) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, top 500 Listed Entities based on their market capitalization as on 31st March every year are required to submit their Business Responsibility Report (BRR) as a part of the Annual Report. The Bank's Business Responsibility Report describing the initiatives taken by the Bank from an environmental, Social and governance perspective has been attached as "Annexure 7" to this Annual Report.

Loans, Guarantees & Investment in Securities

Pursuant to section 186(11) of the Companies Act, 2013 loans made, guarantees given or securities provided or acquisition of shares by a Banking company in the ordinary course of its business are exempted from disclosure in the Annual Report.

Contracts or Arrangements with related parties

Considering the nature of the Industry in which the Bank operates, transactions with related parties of the Bank are in the ordinary course of business and are also at arm's length basis. There was no materially significant related party transaction entered by the Bank with promoters, Directors, Key managerial personnel or other persons which may have a potential conflict with the interests of the Bank. The policy on Related Party Transactions and dealing with related parties as approved by the Audit Committee and the Board of Directors is uploaded on the website of the Bank and the link for the same is (<http://jkbank.net/others/common/policy.php>) Statement of related party transactions under sub section (1) of section 188 of the Companies Act, 2013 is attached herewith as Annexure 6.

Consolidated Financial Statements

Pursuant to Section 129 of the Companies Act, 2013, the Bank has prepared Consolidated Financial Statements of the Bank and also of its Subsidiary, JKBFSL, in the same form and manner as that of the Bank which shall be laid before the ensuing 80th Annual General Meeting of the Bank along with laying of the Banks Financial Statements under sub-section (20) of Section 129 i.e. Standalone Financial Statements of the Bank. Further, pursuant to the provisions of Accounting Standard (AS) 21, Consolidated Financial Statements notified under section 133 of the Companies Act 2013, read together with Rule 7 of the Companies (Accounts) Rules 2014 issued by the Ministry of Corporate Affairs, the Consolidated Financial Statements of the Bank along with its subsidiary for the year ended March 31, 2018 form part of this Annual Report.

Auditors

Statutory Auditors

The Central Statutory and Branch auditors of the Bank are appointed by the Comptroller & Auditor General of India (C&AG) pursuant to Section 139(5) of the Companies Act, 2013. The Bank had four (4) Central Statutory auditors appointed by the C&AG of India for the year under review as under:

1. O.P Garg & Co, Chartered Accountants, Jammu
2. P.C Bindal & Co, Chartered Accountants, Srinagar
3. K.K Goel & Associates, Chartered Accountants, Jammu
4. Verma Associates, Chartered Accountants, Srinagar

Secretarial Auditors

Pursuant to Section 204 of the Companies Act 2013, your Bank has appointed M/s DSMR & Associates, Practicing Company Secretaries, Hyderabad as its Secretarial Auditors to conduct the secretarial Audit of the Bank for the FY 2017-18. The Bank provided all assistance and facilities to the Secretarial Auditor for conducting their audit.

Secretarial Audit Report

The report of Secretarial Auditor for the FY 2017-18 is annexed to this report as Annexure 2.

Employee Remuneration

A. PARTICULARS OF EMPLOYEES AS PER RULE 5(2) OF THE COMPANIES (APPOINTMENT AND REMUNERATION OF MANAGERIAL PERSONNEL) RULES, 2014 FOR THE YEAR ENDED 31st MARCH, 2018, ARE AS UNDER:

I. Employed Throughout the Financial Year and in Receipt of Remuneration Aggregating Rs. 1.02 Cr. or more Per Annum:

NIL

II. Employed for a Part of the Financial Year and in Receipt of Remuneration Aggregating Rs. 8,50,000/- or more Per Month:

NIL

B. The ratio of the remuneration of each director to the median employee's remuneration and other details in terms of sub section 12 of section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are forming part of this report as Annexure 3.

Statutory Disclosures

(1) The disclosures to be made under sub-section (3)(m) of Section 134 of the Companies Act 2013 read with Rule (8)(3) of the Companies (Accounts) Rules , 2014 by your Bank are explained as under:

A. Conservation of energy-

(i) The steps taken or impact on conservation of energy.

The operation of the bank are not energy intensive, however adequate measures have been taken for reducing carbon footprint as mentioned below:

- ❖ Banks Data centre is hosted at a high energy efficient and environment friendly Data Centre at Noida.
- ❖ Bank has discontinued paper circulars/newsletters for internal communication for which a dedicated intranet site is maintained.
- ❖ To discontinue paper based regulatory and internal reporting, Bank has placed an automated MIS system.
- ❖ Bank uses energy star compliant computing and communication hardware.
- ❖ Web Page for Green Banking

(ii) The steps taken by the company for utilizing alternate sources of energy.

Though the operations of the Bank are not energy intensive, however, Bank shall explore alternative sources of energy, as and when necessity arises.

(i) The capital investment on energy conservation equipment.

INR 15.71 Crores. (On procuring energy star compliant servers and desktops)

B. Technology Absorption :-

(i) The efforts made towards technology absorption.

Technology absorption needs stable and conducive policy and governance framework. As such, J&K Bank has adopted IT governance model for restructuring the IT organizational structure as per the recommendations of RBI.

Trainings are being conducted on regular basis to train the banks staff at gross root level to make full use of the technology in order to reduce the operating costs and bring in efficiencies to business processes.

(ii) The benefits derived like product improvement, cost reduction, product development or import substitution.

Following technology initiatives taken by the bank have brought efficacy in the processes besides reduction in the effort and cost involved in handling such operations.

a. Mobile banking Application Upgrade

To provide user friendly and robust Mobile banking application, mobile banking upgrade was initiated. The new mobile banking application was designed with enhanced features vis-à-vis IMPS and PDD bill payment and has been made live for public. As of now following functionalities are live:-

i) Balance Inquiry ii) Statement iii) Stop Cheque iv) All Intra Bank Transactions v) NEFT vi) IMPS vii) PDD Bill payment viii) Mobile Bill Payment / Recharge ix) DTH Recharge x) QR Code

b. Digital Transformation

Apart from several initiatives taken by the bank in its continued efforts to provide better, prompt and efficient services to the customers, digital transformation was pushed at the highest level to enable customers use digital channels of the bank. These efforts resulted in a substantial growth in digital ecosystem of the bank with an overall 22% increase in digital transactions.

c. IT Security

The Bank has Information Security Policy which is approved by Board and reviewed each year to keep it updated as per latest trend and best practices. Bank has got ISO 27001:2013 Certification for Data centre operations, Data Centre Facility and DR Site.

(iii) In case of imported technology (imported during the last three years reckoned from the beginning of the financial year): None

(iv) Your Bank has not incurred any expenditure on Research and Development during the year under review.

(C) Foreign Exchange Earnings and Outgo

The Foreign Exchange earned in terms of actual inflows during the year and the Foreign Exchange outgo during the year in terms of actual outflow.

During the year ended March 31st 2018 the Bank earned Rs 156.34 lacs and spent Rs 55.09 lacs in foreign currency. The term does not include Foreign Currency cash flow in derivatives and Foreign currency exchange transaction".

(2) No significant and material orders were passed by the regulators or courts or tribunals impacting the going concern status of the Bank's operations in future.

(3) Number of cases filed, if any, and their disposal under Section 22 of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and redressal) Act, 2013.

Your Bank has Zero tolerance towards any action on the part of any executive/employee which may fall under the ambit of 'Sexual Harassment' at workplace, and is fully committed to uphold and maintain the dignity of every women executive/employee working in the Bank. No such case was reported during the period under report.

(4) No Stock options were issued to the Directors of your Bank

Extracts of Annual Return

Pursuant to sub-section 3(a) of Section 134 and sub-section (3) of Section 92 of the Companies Act 2013, read with Rule 12 of the Companies (Management and Administration) Rules, 2014 the extracts of the Annual Return as at March 31, 2018 forms part of this report as Annexure 4.

Directors Responsibility Statement

The Board of Directors hereby confirms that:-

- i. In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii. The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- iii. The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv. The directors had prepared the annual accounts on a going concern basis; and
- v. The directors, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Explanation.—“internal financial controls” means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

- vi. The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Adequacy of Internal Financial Controls related to Financial Statement

The Bank has adequate internal controls and processes in place with respect to its financial statements which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. These controls and processes are driven through various policies, procedures and certifications. The processes and controls are reviewed periodically. The Bank has a mechanism of testing the controls at regular intervals for their design and operating effectiveness to ascertain the reliability and authenticity of financial information.

CEO & CFO Certification

Certificate issued by Mr. Parvez Ahmed, Chairman & CEO and Mr. P.K Tickoo, CFO of the Bank, for the financial year under review, was placed before the Board of Directors at its meeting held on 30th May, 2018, in terms of Regulation 17(8) of the Listing Regulations.

Acknowledgements

The Directors thank the valued customers, shareholders, well wishers and correspondents of the bank in India and abroad for their goodwill, patronage and support. The Directors acknowledge with gratitude the valuable and timely advice, guidance and support received from Government of India, Government of Jammu & Kashmir, Reserve Bank of India, Securities and Exchange Board of India (SEBI), Insurance Regulatory Developmental Authority (IRDA), NABARD, SIDBI, IBA, FIMMDA, FEDAI, Stock Exchanges, Ministry of Corporate Affairs, Registrar of Companies, Comptroller & Auditor General of India, Financial Institutions and the Central Statutory Auditors of the bank in the functioning of the bank. The Directors place on record their deep appreciation of the valuable contribution of the members of the staff at all levels for the progress of the bank during the year and look forward to their continued cooperation in realization of the corporate goals in the years ahead.

For and on behalf of the Board of Directors

Parvez Ahmed
Chairman & CEO

Place: Srinagar (J&K)
Date: 30th May, 2018